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Building Strong Control Environments for Government Charge Cards

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OIG DoD





IG Mission Achievement

The OIG Mission Endeavors To:

“Encourage a culture of creativity and intelligent risk taking;”

“Foster and promote public accountability and integrity”

“Provide leadership...to promote economy, efficiency and effectiveness”;

Prevent and detect “waste, fraud and abuse”;

Keep the Secretary of Defense and Congress “fully and currently informed;” and

“avoiding duplication and insuring effective coordination and cooperation.”

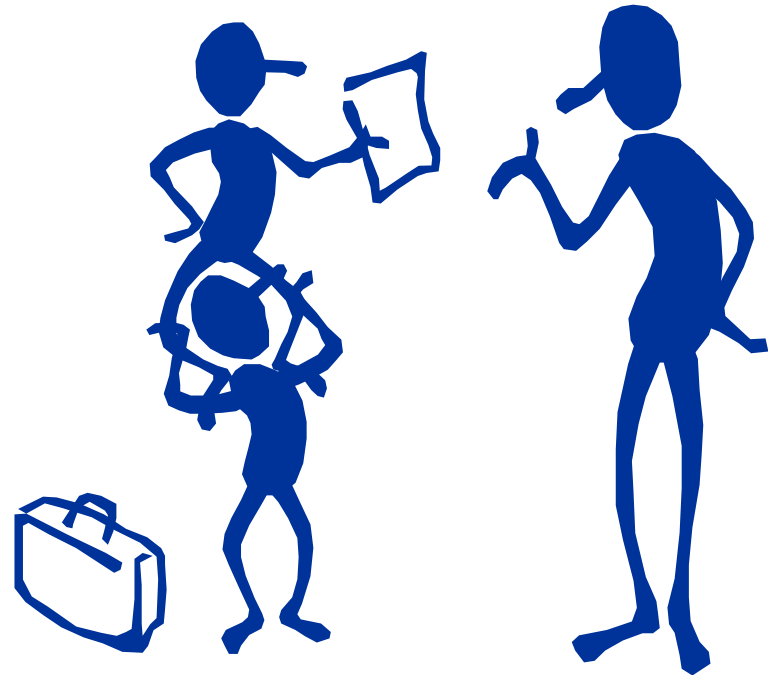
OIG Vision

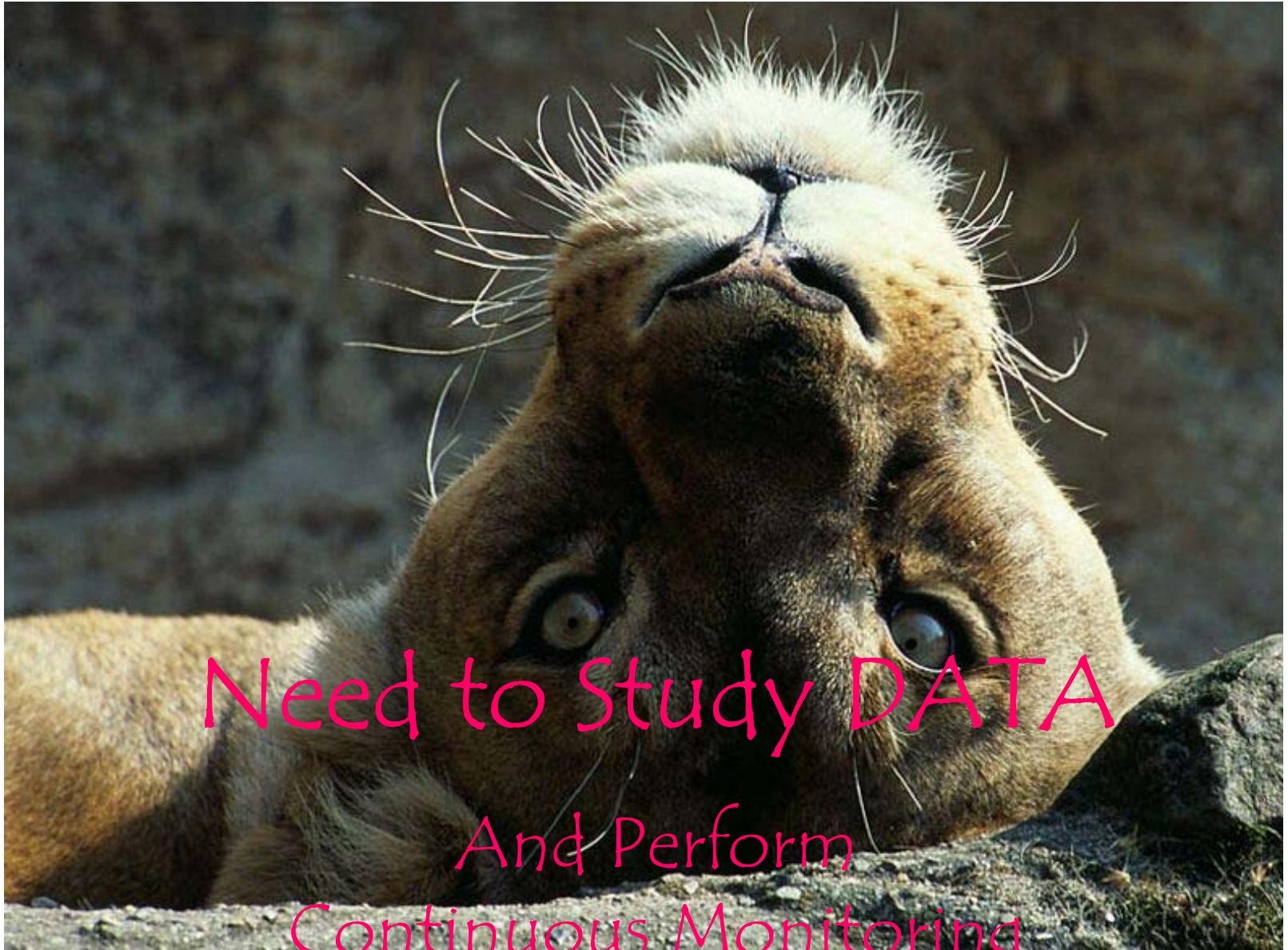
We reflect and promote excellence in the Department of Defense.



Congressional Interest

- **Headline Grabbing Items**
- **Constituency Interest**
- **Government Accountability**
- **Recent Testimony**





Need to Study DATA
And Perform
Continuous Monitoring



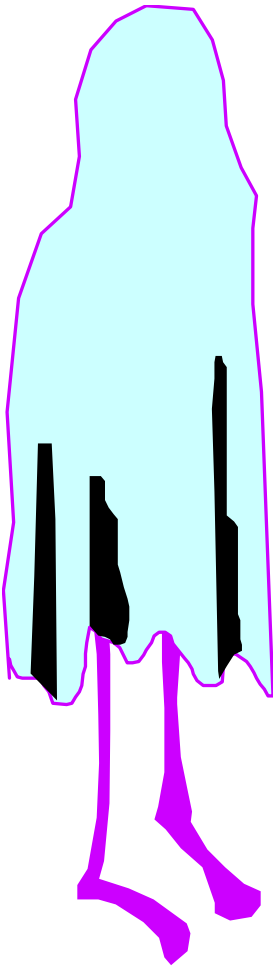
Risks Concepts



- Risks are those activities that could impede the efficient and effective accomplishment of objectives
- Risks are identified and assessed for relevance
- Risks are analyzed for significance
- Controls are then selected to mitigate significant risks
- Controls must be periodically tested to ensure that they are in place and working



SEVENTH ATTRIBUTE OF ***MOST FRAUDS***



- Perpetrator
- Victim
- Motive
- Opportunity
- Intent
- Scenario (*Modus Operandi*)
- **CONCEALMENT**





Four General Categories



- Personal Purchases
- Cardholder Conspiracy With Vendor
- Vendor Fraud
- External Fraud

These schemes can also be used in various combinations.



Wish these inspectors and auditors were available to help me make my card purchases not - - just check on me.





Fraud Indicators

- Regularly recurring split purchases, often to the same vendor
- Purchases outside normal purchase pattern of cardholder (possibly made by others)
- Recurring purchases from relatively unknown sources/vendors
- Purchased items not annotated on property books



Fraud Indicators

(continued)



- Similar invoices from different vendors (software generated)
- Cardholder preference of particular vendor(s) (minimal rotation)
- Questionable purchases of consumable items (accountability subversion)
- Subversion of current Management Controls (by cardholder and/or approving official)



Internal Controls

Separation of duties

- Good Internal Controls are Critical
- Dwindling Resources Threaten Internal Controls
- Remember Compensating Controls & Acceptable Level of Risk
- Passwords & Systems Access
- Collusion makes detection difficult
- Enforce Mandatory Vacations
- Beware of the Employee who can do it all; No matter how capable - don't let them !!!





DoD GPC Statistics

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Total Sales	\$6,106,028,852	\$6,803,230,403	\$7,184,887,175	\$3,458,948,670
Number of Card Holders	202,720	214,099	141,092	136,086
Transactions	10,668,438	10,980,439	10,700,055	6,097,691



Audit to Risk

Traditional Oversight - 100% manual review was not working.

Can not do 11 million transactions a year

- Audit Focus
 - automated 100% review based on business rules
 - resulting in review of a percentage of the transactions with greatest risk.
- Audit Approach
 - create partnerships
 - DoD Program Management Office
 - General Accounting Office
 - Banking Vendors
 - Defense Finance and Accounting Service
 - Military Criminal Investigative Organizations
 - Other Defense Agency IGs and Internal Review Offices
 - OIG DoD
 - General Services Administration
 - Service Audit Agencies
- Reviewed 17,622 transactions related to 1357 cardholders in 752 cities
- Identified 182 cardholders who expended about \$5 million on potentially inappropriate/fraudulent transactions.



Participating Organizations

- DoD Purchase Card Management Office
- OIG, DoD
 - Defense Criminal Investigative Service
 - Assistant Inspector General for Auditing
- Service Auditor Generals
- Military Criminal Investigative Organizations
 - Naval Criminal Investigative Service
 - Air Force Office of Special Investigations
 - Army Criminal Investigation Command
- Defense Finance And Accounting Service (DFAS), Internal Review
- Defense Manpower Data Center (DMDC)
- Other Defense Agency Inspector General and Internal Review Offices





Purchase Card Problem Areas

Abuse and misuse includes a range of actions such as:

- Splitting procurements to avoid procurement thresholds
- Purchasing goods or services which, although for a valid governmental purpose, are prohibited on a purchase card
- Purchasing items for which there is no government need
- Purchasing items which do not represent best value to the government
- Engaging in fraudulent activity
- Invoices were being certified without being reviewed.



Examples of Activities Targeted by Data Mining

Indicators used to identify potential fraud or misuse

- ❖ Repetitive buying pattern even dollars, near purchase limits, or same or similar name for vendor
- ❖ Name for merchant and cardholder (or approving official) the same
- ❖ Fewer than 5 cardholders using a specific vendor
- ❖ Purchases approved by cardholder or no specific person instead by a office



Examples of Indicators of Management Control Deficiencies

- ❖ Too many cards per Approving Official (AO)
(management goal no more than 7 cardholders to an AO)
- ❖ Too many transactions per AO (management goal no more than 300 transactions to an AO)
- ❖ Card assigned to office or group of individuals instead of a specific person



Current Purchase Card Activities*

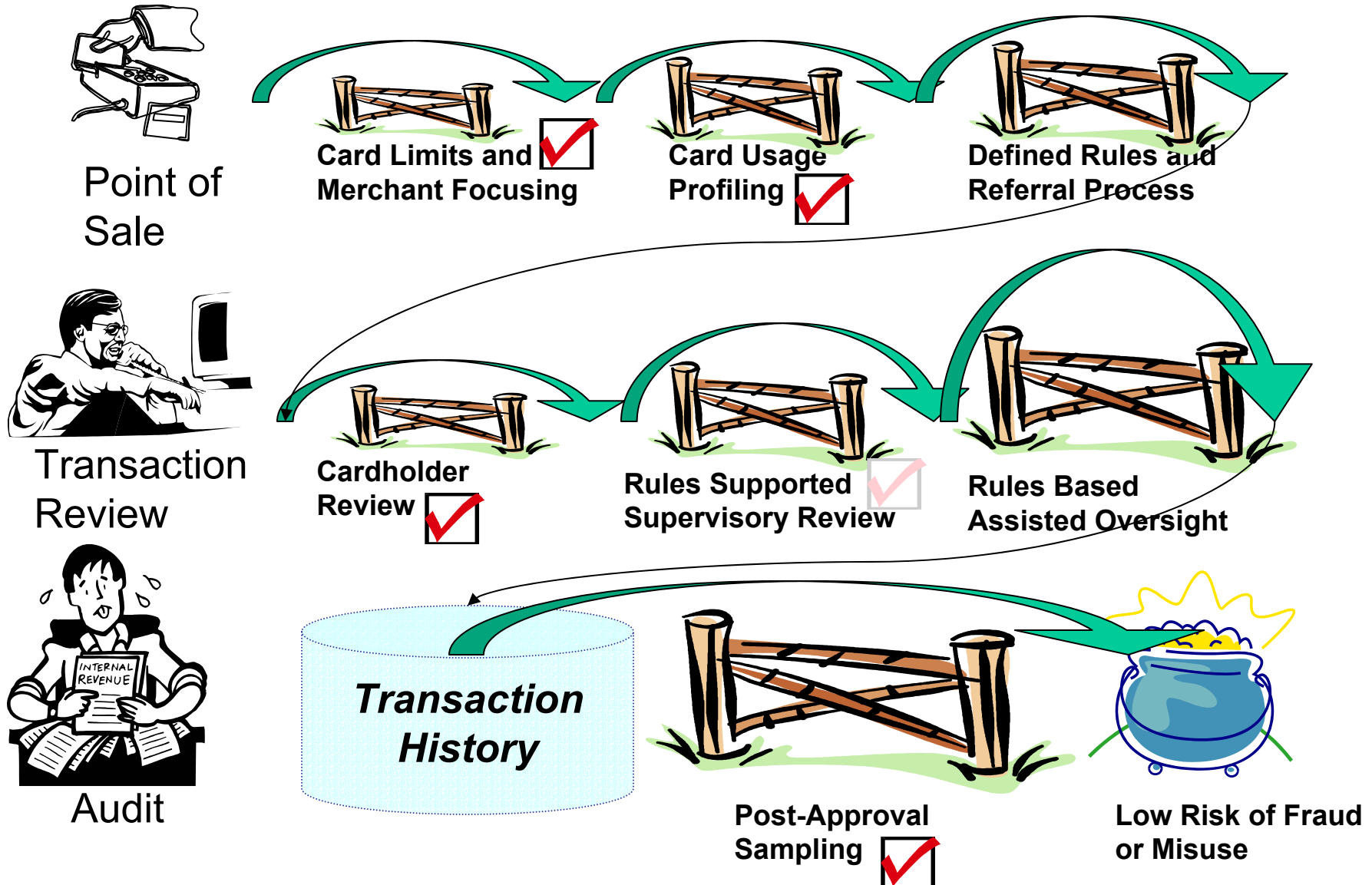
- Open Cases: 57
- Completed Cases 15
- Open Projects: 12
- UCO's: 1

*As of 1/1/2003

Prior Data-Mining Audits vs. Current Approach

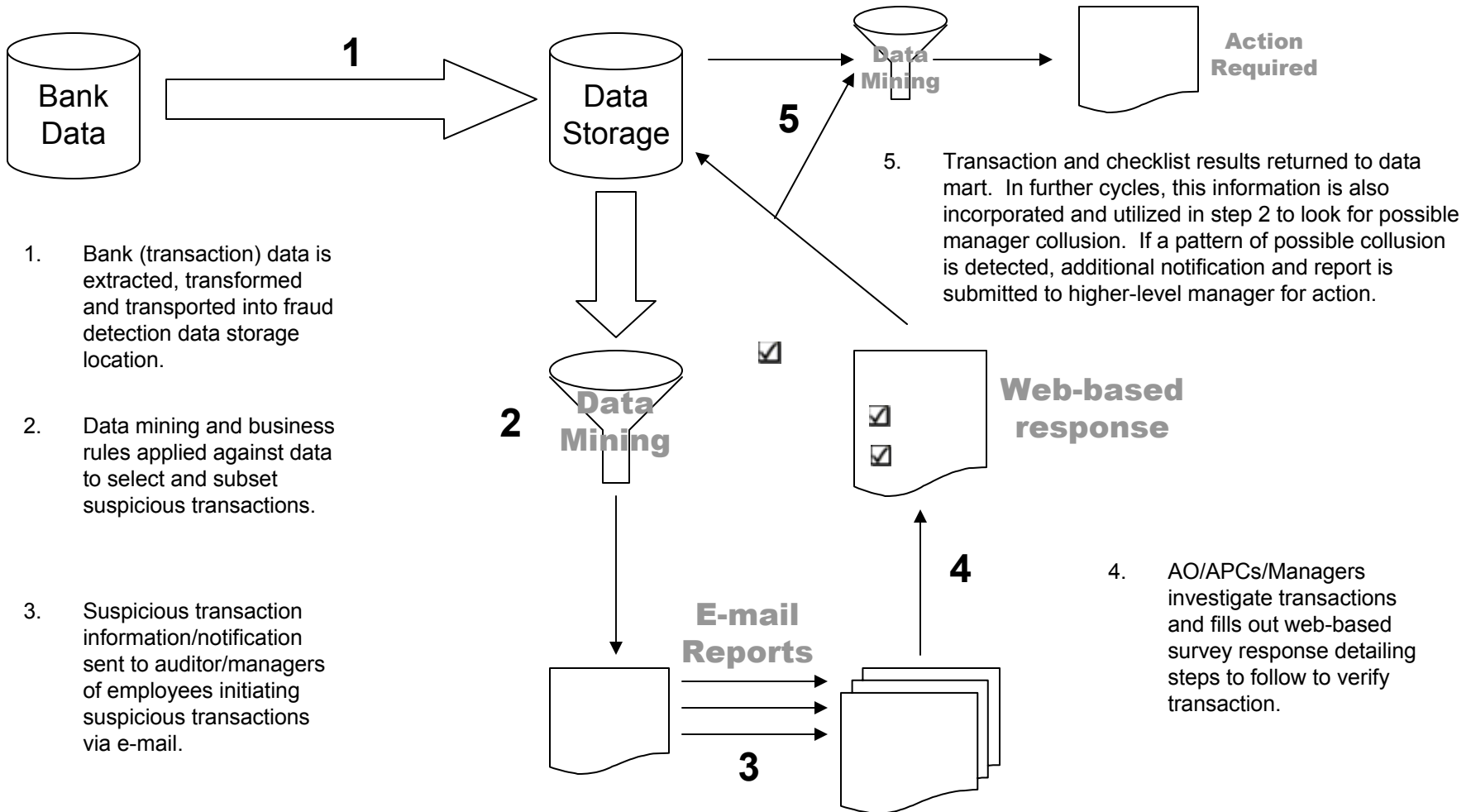
PRIOR METHOD	DODIG/Navy Pilot
- Manual inquiries for background documentation	- Automated e-mail and standard format with responses in database for data-mining
- Responses often vague in content and add little value	- Responses objective - Easier to query and track - Allow for Automated Analysis
- Transaction from 1 - 2 years ago	- Most recent month's transactions
- Top-down inquiries	- Bottom-up Reporting (Automated tool pushes reporting to AO)

Purchase Card Defense in Depth





A Continuous Monitoring Rules Process





Other Federal Agencies

- PCIE dealing with erroneous payments
- Procurement Policy Analyst, Office of Federal Procurement Policy
- CIA Office of Inspector General Investigations Staff
- Commerce Inspector General
- DOJ OIG Fraud Detection Office
- Postal Service Office of Inspector General Investigations Staff
- Small Business Administration Office of Inspector General Investigations Staff
- U.S. Department of Justice, Federal Bureau of Prisons



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